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RUEHBO/AMEMBASSY BOGOTA 3711
RUEHBR/AMEMBASSY BRASILIA 7581
RUEHBU/AMEMBASSY BUENOS AIRES 4831
RUEHCV/AMEMBASSY CARACAS 2083
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RUEHLO/AMEMBASSY LONDON 0099
RUEHMD/AMEMBASSY MADRID 3224
RUEHME/AMEMBASSY MEXICO 1975
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RUEHFR/AMEMBASSY PARIS 0104
RUEHQT/AMEMBASSY QUITO 4720
RUEHSG/AMEMBASSY SANTIAGO 9305
RUEHSO/AMCONSUL SAO PAULO 2099
RUEHBS/USEU BRUSSELS
RHEHNSC/NSC WASHINGTON DC
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
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UNCLAS LA PAZ 003361

SIPDIS

SENSITIVE
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STATE FOR WHA/AND
TREASURY FOR SGOOCH
ENERGY FOR CDAY AND SLADISLAW

E.O. 12958: N/A
TAGS: [ECON](#) [EINV](#) [ENRG](#) [EPET](#) [BL](#)
SUBJECT: HYDROCARBONS REGULATIONS NEEDED TO STIMULATE
INVESTMENT

REF: A. LA PAZ 2943

[1](#)B. LA PAZ 1157
[1](#)C. LA PAZ 2880

Summary

[1](#)1. (SBU) British Gas (BG) Bolivia President Jose Magela told Emboffs on December 11 that he thinks the operating contract BG signed with Bolivia's state oil company YPFB at the end of October is reasonable. He argued that the contracts provide necessary, but not sufficient, conditions for investment. He explained that regulations implementing the 2005 law, which the GOB has yet to issue, and the development of YPFB's operating capacity are essential for future investment. However, he was optimistic that the production companies would go forward with significant investments beginning in mid-2008 to supply the Argentine market. End summary.

Operating Contract is Reasonable

[1](#)2. (SBU) British Gas (BG) Bolivia President Jose Magela told Emboffs on December 11 that he thinks the operating contract BG signed with Bolivia's state oil company, YPFB, at the end of October is reasonable (ref A). He said that the majority of the contracts are reasonable and "win-win," although they contain significant differences in the percentages of the profits going to YPFB for its operations. Magela argued that the companies that were the most proactive in negotiations with the government received better contract terms, meaning

essentially a higher take for those companies/lower take for YPFB. He acknowledged that negotiations are still ongoing between YPFB and the five companies destined by decree for government take-over (ref B). He predicted that the government would purchase the shares needed to have majority ownership of those five companies and would sign administration contracts with the companies, leaving them with operating control.

Regulations Needed to Promote Investment

13. (SBU) Magela argued that the contracts provide necessary, but not sufficient, conditions for investment. He explained that the government still needs to issue important regulations to implement the 2005 law, including on transportation and on incentives for producers with marginal fields. These regulations, along with the development of YPFB's capacity, are essential for future investment, Magela said. Under the new contracts, YPFB took over transportation and commercialization responsibilities that formerly fell on the companies, who are now only responsible for production. YPFB's capacity to handle these new obligations will influence the success of the sector. Magela said that investors have lost confidence in Bolivia, and that the regulations must not impose additional fiscal obligations on the companies if investment is to flourish.

Argentine Carrot Makes Investment Probable

14. (SBU) Magela explained that the natural gas supply agreement signed by Bolivia and Argentina in October (ref C), which is similar to the agreement between Bolivia and Brazil, provided the companies an incentive to sign new contracts. He was optimistic that the Argentine government would finance the construction of the pipeline necessary to transport the Bolivian gas exports, because Argentina needs the gas. Despite the loss of investor confidence, Magela was optimistic that Bolivia could meet its supply obligations to Argentina through increased investment in the sector if the government created the right conditions. He explained that the companies, in agreement with their operating contracts, would only commit to investing and producing additional gas if the Argentine pipeline was built, the companies determined that their investments would be profitable, and YPFB approved the companies' development plans. He predicted that significant increases in investments would not occur before mid-2008 due to technical and procedural requirements.

Comment

15. (SBU) The manner in which the contracts were negotiated -- under threat of expulsion if agreements were not reached -- and the two-year period of uncertainty leading up to the signing of new contracts caused investors to lose confidence in Bolivia. However, if technocrats like YPFB President Juan Carlos Ortiz are able to prevail on regulatory matters, and if YPFB receives the political backing necessary to become an effective organization, the Bolivian hydrocarbons sector could see a revival in the coming years. End comment.
GOLDBERG